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ABSTRACT

In order to make financial management of Ohio schools simpler and more understandable to the public, this Citizens' Council report recommends structural changes in school district budgeting that would necessitate changes in state law. The major problem areas identified are the districts' use of the calendar year as fiscal year, the requirement that districts file both a tax budget and an appropriation measure, and the difficulty of accurately projecting annual revenues. So that the schools' program year will fall within one fiscal year, the council recommends that the Ohio General Assembly establish a July 1 to June 30 fiscal year for public schools. Because district tax budgets tend to be inflated and confusing, they recommend that the assembly abolish the requirement for an annual tax budget. Recommended for improving revenue projections is the collection and allocation of intercounty tangible personal property tax at the state level and the shifting of these funds from the county to state general revenue fund, in addition to requiring that county auditors complete final certification of property values by September 1 and convey tax reduction factors to school district treasurers immediately after verification. Appendixes include data from 63 school districts' cash flow reports and a methodological note. (MJL)

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STREAMLINING LOCAL SCHOOL BUDGETING IN OHIO

by

Larry H. Christman

A Report of the Citizens' Council for Ohio Schools

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INTRODUCTION

The financial problems of Ohio school districts have received quite a bit of attention in the last few years. Those difficulties caused by the lack of adequate funds have usually received the most press, but there have been other problems, not due to inadequacy of funds, that have caused school districts to have "credibility" problems, or at least have made it more difficult for districts to explain their fiscal position simply to the public. These other problems have generally revolved around the antiquated relationship between the county budget commission and local school districts. The Citizens' Council for Ohio Schools identified three problem areas--difficulty projecting revenues, the calendar year as fiscal year, and the requirement to prepare both a tax budget and an appropriation measure--as areas that could be improved with further analysis.

We have addressed neither the adequacy nor the equity of Ohio's school finance in this report; those issues have been examined in other Council reports. Implementing the recommendations in this report will not solve all of Ohio's school finance problems; we think it will make financial management of schools simpler, more sensible, and more understandable to the public. This report is not an indictment of the people who manage our schools; rather the problems are structural and will require changes in Ohio law.

Despite some previous legislative work, the Citizens' Council has found that there is still interest in the General Assembly in making the school budgeting process better. Through further research and consultation with people around the state who face these problems every year, we believe we have come up with some solutions. This report makes the case for two major changes:

I. The school district fiscal year should begin in July and end in June; and

II. The requirement on school districts to prepare and file a tax budget should be abolished.

We have also made several recommendations for legislative changes that would improve the school district revenue estimation process. All of the recommendations contained in this report have been approved by the Council's Executive Committee.

Legislative enactment of these recommendations will streamline the budget process and eliminate some reports of questionable value, thus freeing school officials to design better financial reports for public consumption. The new procedures should make school budget decisions more understandable and more accessible to citizens and the media. It is our hope that a better budget process will lead to wiser allocation decisions and stronger public support for public schools.

The Council appreciates the fine work done by Larry H. Christman on this report, as well as the advice and consultation of numerous officials and citizens around the state who helped us come to these recommendations.

September 1982

Carla Edlefson, Director
Jeffrey R. Bergen, Chairman

ABOUT THE AUTHOR

Larry H. Christman is a former state legislator from Englewood, Montgomery County, Ohio. As a member of the House Finance-Appropriations Committee of the Ohio General Assembly, he chaired a subcommittee that drafted school management legislation in 1978 (HB 1285). School district cash flow reporting requirements in that legislation produced data that were important sources for this report. Mr. Christman is currently a high school history and government teacher and a student in the Ed.D. program in educational administration and policy at the University of Cincinnati.

FUNDING for this study was provided through grants from the Columbus Foundation, the Junior League of Columbus, the Junior League of Cleveland, the Junior League of Toledo, and the Junior League of Cincinnati. However, the recommendations in this report are those of the Citizens' Council for Ohio Schools, and do not necessarily represent the opinions of financial contributors

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BACKGROUND

Ohio's public school financial situation has not suffered from a lack of study. The problems of financial equity and adequacy, as well as management, have been examined by legislative committees, professional education groups, businessmen's committees, and private citizens' organizations.

In 1978 the Finance-Appropriations Committee of the Ohio House of Representatives began a series of hearings into school closings which occurred during the 1977 calendar year. A subcommittee continued those hearings. The problems unveiled dealt with competency of local school financial management, as well as structural problems in state law which made management and public understanding more difficult. The result of the subcommittee work was the passage of HB 1285, enacted in 1978. One of its provisions required in-service training in finance; another established an office in the Ohio Department of Education to provide technical financial assistance to local districts.

Among the issues discussed in the hearings but not resolved by the new law were the three foci of this report: the tax budget, the school fiscal year, and revenue projecting. The reasons for not resolving these issues in 1978 are varied. The legislation did make several changes in financial management for schools, and legislators wanted to give the schools time to absorb those changes. Also, some thought that the changes that were made might diminish the problems of the fiscal year, the tax budget, and revenue projection.

Two more immediate concerns also surfaced during debate on HB 1285 and its successor, HB 44. First, the Legislative Service Commission estimated that the total outstanding public school debt on any given June 30 would be approximately $400 million. Not having the money to appropriate nor the time

to resolve the problem in another manner, the legislature decided not to change the school fiscal year. The time element arose because lawmakers wanted to pass a law solving at least some of the problems before the start of the next school year. To avoid having held hearings with no result, the legislature passed HB 1285 without solving all of the problems addressed in this report.

However, because legislators and school officials continued their interest, in 1979 the Toledo Public Schools were authorized to establish a pilot project on financial management. One part of that project was a two-year experiment with a July-June fiscal year. The Toledo schools submitted an evaluation report to the Ohio Department of Education and the Ohio General Assembly during the fall of 1981. We interviewed Toledo school officials and studied their report as a part of this project.

This paper, then, looks at school financial management concerns three years after HB 1285 and two years after HB 44. Improvements have been made. We hope to help focus attention on further improvements which can and ought to be made.

Part I: CHANGING THE SCHOOL FISCAL YEAR

A. The Ohio General Assembly should establish a fiscal year for Ohio's public schools which would begin July 1 and end June 30 of any given year.

Citizens who attempt to understand their local school district budget are often surprised that the district begins its budget in the middle of the school year (January) instead of at the beginning. It doesn't seem to make good common sense for a school year to extend over two different fiscal or budget years.

The public perception of common sense is not the only reason for the recommendation to change the fiscal year. However, the general expectation of a fiscal year, the end of which requires a balancing of the books, is that of a period of time that reflects program, budget, and fiscal activity. The current school fiscal year meets none of these criteria. School districts in Ohio, like all local governments, operate on a January 1 through December 31 fiscal year. During that period, school districts cannot legally spend more money than they receive in new revenue plus unexpended revenue from previous fiscal years.

The problems caused by the existing fiscal year usually cited by school administrators range from cash flow, program planning, and communications to paperwork requirements. These problems affect the total operation of the schools. For example, the current system requires at least two different financial forms to be filed with the state agencies each year--one based on the state's fiscal year and one on the school district's fiscal year. Further discussion of these problems and the advantages of changing to a July 1 to June 30 fiscal year follows.

Advantages

The principal advantage of changing the school fiscal year is that the schools' program and activity year will fall within one fiscal year, which their expenditures for salaries and materials will more nearly match. Also, it will be easier and more sensible for the program year and the fiscal year to coincide for purposes of accounting and "closing the books" at the end of the fiscal year. The difficulty of public explanations of revenue shortage in November and December, just after the start of the school year, will be eased as well.

The change in the school fiscal year will improve opportunities for school board input in program decision making. When each academic year is also a separate appropriation year, local school boards will be able to see more clearly the program-expenditure relationship. This will make it easier to plan for the development of new programs and the elimination of outdated or unwanted programs. Newly elected school board members take office in January. Under the present system, one of their first tasks is to approve a calendar year appropriation measure that they have not been involved in planning, since the budget was developed by their "lame duck" predecessors. Thus, another advantage of changing the fiscal year would be the elimination of this "lame duck" situation.

The fiscal year change will also result in better financial planning. The financial planning problems caused by the January-December fiscal year are greatest in school districts with more than 25% of their total revenue in the intercounty tangible personal property tax. There is no one-year time lapse between assessment and payment of the tangible personal property tax as there is with the real property tax. Thus, school administrators have inadequate advance notice of shifts of revenue. This, along with the fact

that payment and settlement occur late in the calendar year, creates serious planning difficulty. Revenues only moderately lower than estimates can cause a major problem when the knowledge of the shortfall comes so late in the fiscal year. On the other hand, an unexpected cash balance can occur in years of sudden upward shifts. This can be particularly embarrassing to a school district that has gone to the ballot based on certified revenues only to find out near election time that revenues from intercounty tangible personal property taxes are higher than estimated. Changing to the July-June fiscal year places the intercounty tangible personal tax settlement in the first six months of the fiscal year, allowing for better planning and expenditure adjustment.

Certain large school districts, where tangible personal tax revenues do not constitute most of the revenue base, still have the problem. A school district the size of Columbus, where the tangible personal tax is close to the state average of 19% of tax base, can find that a difference between actual and estimated revenue of small percentages can mean $1 to $2 million. When reported in the newspapers, this can be embarrassing and difficult to explain, although it is a small marginal change in the total revenue picture of the district. This can have a long-term negative effect on the school district's credibility. When we discussed the financial planning aspect of the fiscal year change with educators around the state, most of them seemed to feel that it would be advantageous to change the fiscal year because there would be more accurate financial planning if the fiscal year coincided with the activity cycle of the school year.

Another major advantage mentioned by individual superintendents is that of reduced paperwork. Many school districts are currently operating and/or filing reports on several fiscal or reporting years. Their school fiscal year

is, of course, the current calendar year. Many of them receive federal funds on an October-September fiscal year and state funds on a July-June fiscal year. Many have employee contracts which start in September, which gives them yet another planning year. One superintendent said he had five different "years" to deal with in putting his program and budget together. Eliminating the January-December fiscal year would alleviate much paperwork and allow districts to submit the same July-June report to the State Auditor that they now provide to the state Department of Education.

Cash Flow

An important consideration in thinking about changing the school district fiscal year is cash flow. Cash flow has to do with the relative timing of revenue coming in and expenditures being paid out. There is a cash flow problem when bills or payrolls become due before the revenue to pay them is received. Schools are generally in session five and one-half months of the first half of the calendar year and three and one-half months of the last half. Schools receive approximately 45% of their revenue during the first half of the year when their activity cycle is at its peak and 55% of their revenue during the last half of the year, when their activity cycle is at its lowest.

On the surface, this imbalance between activity cycle and revenue would create a serious cash flow problem during May and June. For this reason, a major argument against changing the fiscal year to July-June has been that schools would end up with deficits on June 30. Studies conducted prior to 1978 and the data generated by the reports required by HB 1285 indicated a potential statewide deficit at the end of June of approximately $400 million. This large projected deficit was one of the primary deterrents to changing

the fiscal year in previous sessions of the General Assembly.

However, when we examined the revenue and expenditure patterns of schools more closely, we found that the June deficit is not as big as was previously thought. The line of analysis which ends with a predicted $400 million June deficit assumes uneven monthly expenditures and that schools pay their personnel on a current basis. Neither assumption is correct for most Ohio school districts. Cash flow reports filed by school districts with the Ohio Department of Education indicate a more even distribution of expenditures throughout the year in most school districts.

During the first six months of the year, January to June, expenditures for salary, wages, and fringe benefits tend to be similar. Variances seem to be due to extracurricular contracts or three payrolls falling in a given month. The second six months also tend to take a definite pattern. There is a slight decrease in some school districts in July and August, due to fewer support personnel on payroll. The months September through December, reflecting newly negotiated salary schedules and incremental salary increases, show higher levels of expenditures. Thus, most districts spend about the same amount for personnel each month from January to June, less in July and August, and the largest amounts from September through December.

The cash flow reports indicate that school districts tend to have most of their non-personnel expenditures in the last six months of the year. This seems to be the result of traditional patterns of school supply purchases. In addition, most major maintenance work is done in the summer, with the expenditures falling in the second half of the calendar year. When we studied monthly patterns of school district spending for both personnel and non-personnel items, we found that in fact most districts spend about 50% of their budget during the January to June period and about 50% during the July

to December period. A majority of the school districts, given an adequate supply of revenues and reasonable budget restraints, should have no cash flow problem as a result of changing the school fiscal year.

There are many school districts, however, that do not follow the pattern of expenditures set by the majority. On examination, the schools that have higher expenditures for salary, wages, and fringe benefits in the first six months pay their staff on a current basis during the school year, rather than over the entire calendar year. They have 20 or 22 paydays per year, as opposed to the 26 paydays in districts of even distribution. Districts that pay on a current basis cannot spread their personnel costs out over the summer.[1] However, not all of these districts would have cash flow problems if the fiscal year were changed. Several of them tend to have greater non-salary expenditures programmed into the last six months of the year, thereby providing balance to their revenue and expenditure patterns. (The data supporting these findings can be examined in Appendix 1.)

Besides expenditure patterns, the other major factor to be considered in cash flow is that of the revenue cycle. The historical pattern was for state foundation payments to be made in twelve equal installments during the latter part of each month. This distributed funds to local schools evenly across the fiscal year. Districts that received most of their funds from the state had an even source of revenue. The state funding system was not a factor in inequity of revenues from month to month.

Local tax revenues must be considered separately from state revenue. Half of the local property tax revenue comes into the district in the first

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[1]It is clear that some school districts on a 20-payday scheme are borrowing and paying interest on larger amounts than would be necessary if they were paying staff on a 26-payday scheme.

six months of the year and the other half in the last six months. Thus, districts with most of their revenue from state aid and real property taxes receive about the same amount of revenue in the six months from January to June as in the six months from July to December.

The problem with local revenues from this perspective is the tangible personal property tax. This is the tax collected on machinery, equipment, and inventories used in business in Ohio. The tax is collected on two bases. They are intracounty property, or that located totally within one county, and intercounty property, paid by corporations with property in more than one county. The intracounty tax is paid twice a year, with the first payment due April 30. This is the smaller portion, averaging approximately 30% of tangible personal property revenues statewide. The intercounty tax is paid in one installment, with tax settlements to schools stretching from September to December. Those districts with a sizable percentage of their revenue coming from the intercounty tangible personal property tax receive a disproportionate amount of their funds in the last half of the calendar/fiscal year. Those school districts that obtain nearly all their funds from intracounty tangible personal revenues, real property revenues, and state revenues receive about the same amount of money in the first six months as in the last six months of the year.

The key question in this discussion is what this means for the June 30 date as a proposed new end of the fiscal year. How many school districts are actually going to be out of cash on June 30th? The answer depends on appropriation and contract decisions made by local boards. However, the data from state reports is useful in helping to quantify the problem. The Citizens' Council drew a sample of districts to examine. Approximately 70% of the school districts in the sample expend less than 50% of their total

expenditures during the first six months of the year. The 63 districts in the sample spend an average of 48.9% during the first six months. The $400 million deficit estimate assumed all districts spend approximately 55% of the money during the first six months, while receiving only 45% of their revenue during that period. The data suggest that for most districts that expenditure estimate is high. If one accepts the revenue estimate of 45%, then the deficit would be approximately $160 million. As revenue patterns are considered, the deficit would shrink further. The sample used also exaggerates the size of a June 30 deficit, as it includes 15 of the 16 largest city districts. Eight of those spend 50% or more in the first six months and account for approximately $43 million of the sample spending above 50%. The other districts' total is approximately $3 million.

However, this need not be a problem. The Toledo school district, a part of the sample, expended more than half of its monies during the first half of the fiscal year. Toledo is now conducting a fiscal year change pilot project authorized by the General Assembly in 1979. The reports filed with the Ohio Superintendent of Public Instruction by the Toledo school system indicate that with the cooperation of the state auditor and county auditor and the following of sound accounting practices the deficit problem on June 30 should not be a barrier to changing school fiscal years. Most school districts with an even pattern of revenue and expenditures would have no problem with the proposed change.

B. Districts should continue to have the option of adopting a temporary appropriation measure for the first few months of the fiscal year.

This recommendation is made because of the uncertainties of revenue estimation. In odd-numbered years, the state budget is often not final until

the last hours of June 30, if then. It is impossible to know precisely how much state aid to schools will be until the budget is final. Under the present system, schools must adopt their final appropriation in March, long before their state aid for the last half of the year is certain. Under a changed fiscal year, this problem will not be solved, although it may be lessened.

However, some experts cautioned that the revenue estimation for real property tax could be made more difficult by the fiscal year change. If the school fiscal year begins July 1st, the adoption of an appropriation will be further away in time from real property tax collections.

For example, under the present system, preparation of the 1983 calendar year budget is done in fall 1982, with estimates for 1983 property tax collections. Even in reappraisal and update years, property valuations and tax rates are known by fall. But if the school fiscal year were changed, preparation of a 1982-83 fiscal year budget would be done in spring 1982. Estimates for first-half 1983 property tax collections would be needed for this budget, but if 1982 were a reappraisal or update year, these estimates would still be uncertain in the spring. On the other hand, all counties have now been through reappraisal and update and school districts should have reliable data on which to base projections.

Many districts now adopt temporary appropriation measures in January. Under a switch to a new fiscal year, provision should be made for continuing the option of a temporary appropriation for a limited part of the fiscal year because of the possible difficulties in estimating revenues, particularly in reappraisal and update years. Refining the estimates of real property tax revenues will require additional work and cooperation with county auditors. The Toledo report indicates that this is feasible. We think that the advantages of changing the fiscal year outweigh this concern, in light of the

Toledo pilot project and the disadvantages inherent in the current system.

C. The General Assembly should establish procedures for school districts to follow in making the transition from one fiscal year to the other. School districts should not all be required to change fiscal years at the same time.

The Department of Education and the State Auditor's office will be able to ensure a more orderly change if the changeover is completed on a regional or county group basis over a two- or three-year period. However, legislation should establish a date by which full implementation should occur.

A district making the fiscal year transition will have to go through one fiscal period that is either six or eighteen months long. A six-month transition "year" is probably more easily monitored by state agencies. The first group of districts could go through the transition from January to June 1984. In adopting their six-month transition budget, those districts could be allowed to appropriate all revenues they expect to receive during those six months. Additionally, they could be permitted to borrow against the revenues they would expect to receive during the following six months (July-December 1984). This borrowing ought to be restricted to an amount equal to 5% of the total annual appropriation for the preceding twelve-month fiscal year. The state auditor and Department of Education should be required to monitor this borrowing authority. Borrowing would not have to be from the School Loan Fund to be properly monitored and audited. Districts could be allowed to borrow from local banks and carry the notes from the six-month fiscal period over into the new fiscal year. This was essentially the procedure used in the Toledo pilot project.

The county auditor must be required to certify available resources to the school district treasurer in the spring, rather than in the autumn, once a district has made the transition to the July-June fiscal year.

Part II: ABOLISHING THE PUBLIC SCHOOLS' TAX BUDGET

A. The Ohio General Assembly should enact legislation which removes the current requirement for an annual filing of a tax budget with the county budget commission.

The Ohio Revised Code requires that school boards file a tax budget for the upcoming fiscal year by July 20th. The board is required to hold a public hearing on the tax budget prior to its adoption. The county budget commission meets and approves, disapproves, or modifies the tax budgets of all local government. This procedure is used in Ohio to justify the need for the taxes levied in the school district. The budget commission then sets the tax rates based on the tax budget. Citizens have two opportunities in hearings before their local school board and before their budget commission to voice concern over the tax rate and the local agencies' plans for the use of the revenue generated by those rates.

Although the tax budget procedure seems to have been designed to place an additional check on property tax increases and to provide more accountability, in fact the process has fallen into misuse and contributed to public misunderstanding of the school finance picture in many communities. Eliminating the tax budget requirement would remove an opportunity for gamesmanship, simplify the work of the county budget commission, improve public understanding of school finance, and reduce paperwork.

Elimination of Gamesmanship

A superintendent of a major school system in his cover letter sent with the tax budget to his school board said, "Any comparison between actual operations in previous years and the tax--or asking--budget for 1981 will have little meaning." Another major city superintendent said in his cover letter, "There are sufficient 'asking' dollars built into this 1981 tax budget to pay

for the negotiated salary packages, some improvements, ... and a large contingency which would permit sufficient dollars to be carried into 1982." Statements of this type suggest the tax budget is the product of some gamesmanship.

Tax budgets are generally inflated. One reason for the inflation is to ensure that there is no possibility that the county budget commission will roll back the tax rate. Tax budgets are sometimes used to show large shortfalls to justify a new levy. Obviously, the alleged need for additional funds affects the communities' perception of the adequacy of the state's financial support of the schools. Interestingly, the large school systems tend to have greater divergence between the tax budgets approved and the appropriation measures passed than do smaller districts.

We studied the relationship between 1981 tax budgets and 1981 appropriations in 64 sample districts and found some significant variations. For example, the Dayton Public Schools' tax budget was 18% higher than the eventual 1981 appropriation. Evidence suggests that for most districts the tax budget is neither a meaningful way to communicate financial information nor a useful planning tool.

Simplifying the Task of the County Budget Commission

Another advantage of the recommended change would be that the work of the county budget commission would be simplified. Ostensibly, the various county budget commissions review the school tax budgets from a fiscal and programmatic perspective. Actually, the budget commissions do not make program decisions. They are concerned that the budget will spend all the dollars to be raised by taxes levied. Commissioners also look to see if funds from proposed ballot measures are allocated. These two goals accomplished, the tax budgets are approved. Usually this process is completed for all

school districts in the county during a single sitting of the commission. Attendance by both commissioners and the public is low, according to those interviewed. Both school officials and the county budget commission members understand that the process has become a formality with little or no substance. The commission's task could be simplified by abolishing the tax budget filing requirement.

Improvement of Public Understanding of School Finance

The public would benefit through the simplification of the appropriation process. The adoption of both a tax budget and an annual appropriation measure creates confusion over the actual state of school finance in many communities. Citizens are uncertain which document governs spending levels for school programs. It is also difficult to determine when the program planning has room for community input. If the tax budget has meaning for program development, then a full explanation of this ought to be made. If not, then, has the adoption of the tax budget placed restrictions on what the board does in its appropriation measure? Obviously, most school boards place priority on the appropriation. However, this is difficult for the citizen to perceive, especially given the rhetoric about program needs that tends to accompany tax budget approval.

Contributing to public misunderstanding is the difficulty the media seems to have in presenting the relationship of the tax budget to actual school operation. News articles gleaned from several newspapers carry headlines about the deficit in tax budgets. The stories tend to use tax budget figures and refer to the financially strapped school system. No one denies that many schools in Ohio have serious financial problems; however, that determination cannot be made by examining the tax budgets.

To summarize this point, the two-step process is difficult for the public to understand because it is unclear which document is the "real" budget and when public input is most effective. Eliminating the tax budget will improve both public and media understanding.

Reduction of Paperwork

Repealing the tax budget filing requirement will eliminate some paperwork. While some districts use the tax budget as a planning tool, the forms required for it are too general for any but the most superficial planning analysis. The conversion from planning figures to the tax budget form is an additional unnecessary paper requirement. The school finance officials interviewed agreed that any advance planning that is done in relationship to the tax budget could be better accomplished through other means.

B. If the school fiscal year is changed as suggested in the previous section, the annual appropriation document should be filed with the county budget commission. If the school fiscal year is not changed as recommended, a summary form of the annual appropriation document should be filed with the budget commission.

The school district tax budget is no longer an effective check on the need for property taxes, as it perhaps once was. This is particularly true because there is very little growth in property tax revenues from year to year, unless voters approve a levy.

Instead of the tax budget, a summary of the annual appropriation measure ought to be filed with the county budget commission. This filing would provide notice that the funds to be received by the school are going to be expended or otherwise legally used by the school board in its financial and program planning for that fiscal year. This would satisfy the concern that the county auditor, treasurer, or prosecutor have access to a document showing proper use of county or local property tax revenues.

C. When a school board files a tax levy resolution with the county board of elections, it should be required to file concurrently a resolution of intended appropriations with the county budget commission, showing how the proposed levy funds will be spent.

To ensure that there is an examination of the proposed expenditures of new operating, permanent improvement, or construction levies, a resolution of intended appropriations should be sent to the County Budget Commission. This should be concurrent with the filing with the board of elections of the resolution to place the issue on the ballot. A resolution of intended appropriations will provide an opportunity for the budget commission to determine that the funds raised by the levy will be spent, in the absence of a tax budget.

D. The law should require each school district to hold a public hearing on the annual appropriation measure.

The Citizens' Council for Ohio Schools has always advocated improved participation in the decision making process. We recommend changing the legal requirement for public hearings on the tax budget to a requirement for a public hearing on the appropriation measure. We believe that eliminating the tax budget and focusing public attention on the appropriation measure will improve citizen participation in the decision making process, and enable that participation to be more meaningful.

Part III: IMPROVING PUBLIC SCHOOLS' REVENUE PROJECTIONS

The revenue projection difficulties vary from school district to school district, both as to their nature and as to their severity. The differences depend on the local tax base and the type and degree of the funds received from other government agencies. A discussion of these problems is in order while examining the recommendations and their advantages.

A. The county auditor should be required to convey the tax reduction factors to school district treasurers immediately after receiving verification of the factors from the Department of Tax Equalization.

B. County auditors should be required to complete final certification of property values by September 1st of each update and reappraisal year.

Local Revenue Projection, Real Property Tax

School officials from districts that have most of their local tax base in real property seem to feel that a fairly accurate job is being done in revenue projection. The key appears to be whether or not good communication is present between the schools and the county auditors. The one-year delay between the date of tax assessment and collection of the revenues contributes to the ease of projection. The action of the Ohio General Assembly in past years to seal growth from real property is also a factor. (Although most school officials would rather sacrifice some predictability for some growth in real property tax revenues.)

The estimation problems occur during the years of reappraisal and update of real property values. In one year out of three it is difficult to anticipate what the change in values is going to mean in increased revenue from the "inside," or non-voted millage. These inside mills are applied directly to the new values, with no adjustment. On the average, school

districts receive the revenues from about 4.6 inside mills.

The voted, or outside, mills are also applied to the new property values, but a tax reduction factor (sometimes referred to as the "920 credit") is then applied to the calculation to ease the impact of inflation on the property taxpayer. The reduction factors are computed by the state Department of Tax Equalization, then used by the county auditor in calculating property tax bills. Some county auditors are better than others about promptly reporting the tax reduction factor to school officials.

Some school officials we talked to believed that most of their problems in estimating local property taxes would be solved if there were better communication between county auditors and school officials. Requiring the auditors to complete tax valuations by September 1 and convey equalization factors to school district treasurers would help to solve the major obstacles in real property tax estimation.

Tangible Personal Property Tax

C. The collection of all intercounty tangible personal property tax should be transferred to the state level; further, these funds should become part of the state general revenue fund.

School districts have more difficulty in estimating revenue from the tangible personal property tax than from the real property tax. (See page 9.) The major portion (70%) of the tangible personal property tax revenue is from the less predictable intercounty share. The statewide average of tangible personal taxes as a percent of school district total revenue is 19%. The average for intercounty taxes is 14%.

Minor changes from projected revenue should not be a problem for those school districts which are below the state average in tangible personal

revenue (417 of the 615 districts). School officials that we interviewed believe that revenue shifts from tangible personal taxes of 5% to 10% should be manageable for most school districts. The problems occur for the 198 school districts that are above the statewide average. The further above the average the greater the problem. HB 1285 did cause some improvement by requiring that corporations notify county auditors of change exceeding $500,000 in the tax base of a single corporation occurring in a county. This does not help the school district with many corporations, all of whom have changes just under $500,000. We found disagreement as to just how much of a problem this causes, however.

The difficulties with the shifts in tangible personal revenues are complex. First, there is no one-year delay as in real property. Thus, the time and ability to adjust appropriations and program planning is very limited. The time-to-adjust problem is complicated by the late settlement dates for the intercounty portion of the tangible personal tax. Historically, actual revenues have been higher than estimates, because county auditors tended to make conservative estimates in a time of a growing economy. Recently, due to factory closings, remodeling efforts, changing systems of inventory, and use of high technology, several county auditors, and thus several school districts, have had difficulty keeping track of the actual revenue situation. Dr. Gerald Steck, the treasurer of the Kettering schools, had several revisions, all downward, during 1981. In the Kettering school district, General Motors sold a division and shut down the factory. G.M. made a commitment to reopen that facility, and reopening has occurred. The new problem has been in estimating the re-equipping and inventory values.

Fiscal Year Change

At this point, the recommendation to change the fiscal year must be repeated. If the change were accomplished, the intercounty tangible personal tax settlements would be in the first half of the school fiscal year instead of the last half of the year. Then when actual collections varied significantly from projections, there would be time to adjust spending before the end of the fiscal year.

Intercounty Tangible Personal Property Tax Diversion

If the intercounty tangible personal tax were collected at the state level and made a part of the state's general revenue fund, the money could then be redistributed through the state school finance formula. From a revenue projection perspective, this would remove the most unpredictable local revenue problem. Obviously, it would require a reconsideration of the state formula funding primary and secondary education. The Citizens' Council advocated diversion of all business property taxes in our report, "Recommendations for Ohio School Management, Finance and Tax Policy for the 1981-83 Biennium" (March 1981), because it would make the state's school funding system more equitable. However, diverting just the intercounty tangibles would help to make local revenue estimation easier.

State Revenue Projections

The problem for local school officials in projecting revenue from the state is quite different from the property tax problems. In the state situation, someone else is looking at how many dollars the state will have and determining what portion of that money will go to schools in general and any school district in particular. The issue is clearly beyond school officials' control.

In the past, prior to the 1980-81 school year, the money appropriated could be counted on. The local school official, individually and with the Ohio Department of Education's assistance, could project the funds to be available by working the state formula. For many districts with a large proportion of their revenue from the state, this projection capacity was crucial. Since 1980, state funds have not been dependable. The problem has been magnified by methods of handling reductions from the state. Across-the-board cuts hurt the districts worse that receive the larger proportions of their revenues from the state. These districts also have the smaller percentages of local revenue.

Federal Fund Projections

This problem has similarities to the projection of state funds--someone else controls the income and distribution systems. Fortunately, for most districts the dollars are not a significant share of the total fund. However, school districts with federal installations in or near have been damaged by reduction of federal impact aid. Also, projecting the availability of funds for the special programs currently being undertaken in reading, math, consumer education, and others is very difficult on a year-to-year basis. This is beyond the scope of Ohio officials but has important implications for Ohio. If programs are planned and contracts let, then the federal money is reduced or eliminated, local officials have to decide whether or not to continue the program. If the federal role in education continues to shrink, there will be fewer problems of estimating revenue from this source, but it is likely some programs will be eliminated.

Appendix 1: DATA FROM SAMPLE OF 63 OHIO SCHOOL DISTRICTS' CASH FLOW REPORTS

Calendar 1981

	Dollars Spent January-June in Excess of July-December	Average % of Total That Is Spent January-June
Cities (15)	$43,402,752	50.03%
Small towns (16)	530,989	47.5
Satellite (16)	2,450,756	49.25
Rural (16)	965,788	48.8
All sample districts	$47,350,285	48.9%

NOTE: 30.2%, 19 school districts, expend 50% or more first six months.
69.8%, 44 school districts, expend less than 50%.

SOURCE: Ohio Department of Education, Forms SM-1 and SM-2

Cities

	Total Expenditures 1981	% Expended in 1st 6 Months
Akron	$76,215,975	56.1%
Canton	31,290,056	44.9
Cincinnati	1,315,443,756	50.0
Columbus	160,044,835	54.6
Dayton	82,036,952	54.8
Elyria	23,537,221	47.8
Hamilton	20,338,048	49.1
Lima	14,762,991	46.8
Lorain	25,366,599	50.5
Mansfield	19,863,963	52.4
Middletown	27,420,706	41.9
Springfield	25,204,387	52.0
Toledo	123,314,641	53.7
Warren	21,368,250	49.5
Youngstown	36,025,361	46.4

Small Towns

	Total Expenditures 1981	% Expended in 1st 6 Months
Bellevue	$4,887,584	45.6%
Celina	5,016,558	50.8
Circleville	4,408,640	45.2
Fostoria	8,479,650	34.6
Greenville	7,698,349	51.6
Jackson	4,761,197	50.2
Lancaster	15,551,900	47.2
Logan	6,345,100	46.3
Mason	3,573,326	46.6
Medina	10,162,650	49.5
New Carlisle-Bethel	8,987,641	47.8
Norwalk	4,623,867	51.1
Talawanda	6,993,695	50.6
Wellston	3,038,634	49.6
Wooster	9,035,726	47.6
Zanesville	11,105,792	47.2

Satellite

	Total Expenditures 1981	% Expended in 1st 6 Months
Bedford	$15,200,000	46.8%
Berea	28,534,631	49.5
Cleveland Hts.-University Hts.	25,901,666	52.1
Fairview Park	5,444,116	50.7
Finneytown	5,076,548	43.6
Hubbard	6,086,396	48.9
McDonald	1,771,783	52.0
Martins Ferry	3,777,059	48.3
Mayfield	12,602,773	48.4
Miamisburg	8,705,033	57.0
New Miami	2,235,797	49.9
Northmont	13,712,441	48.4
Princeton	23,709,785	47.8
Ravenna	7,287,923	45.6
Solon	9,504,186	48.6
Whitehall	7,334,674	47.4

Rural

	Total Expenditures 1981	% Expended in 1st 6 Months
Batavia	$3,707,587	63.0
Brown	1,695,500	46.7
Clermont-Northeastern	4,270,998	48.3
Dublin	4,752,767	48.1
East Muskingum	3,364,076	47.6
Eastwood	3,111,142	48.8
Fairbanks	2,248,485	49.3
Farmington	755,906	48.7
Felicity-Franklin	1,819,200	49.8
Field	5,335,415	45.6
Hicksville	2,044,307	44.7
Huntington	1,938,139	50.1
Miami East	2,741,624	48.0
New Richmond	4,381,803	49.3
Southern	1,537,000	47.6
Three Rivers	6,474,950	45.4

APPENDIX 2: METHODOLOGICAL NOTE

Data sources for this project included: school district tax revenue sources and revenue and expenditure patterns (reported to the Ohio Department of Education on forms SM-1 and SM-2); various newspaper reports, the Toledo Schools' report to the Auditor of State and the Superintendent of Public Instruction (September 1981); the Legislative Service Commission Report (1978) on School Fiscal Year Change; and the tax budgets and appropriation documents of the sample school districts. A series of interviews and meetings was conducted with selected school finance and tax experts in Ohio. Their listing here does not imply endorsement of the recommendations in the report.

Those interviewed were:

Kenneth Crim, University of Dayton Educational Services, former Superintendent of Montgomery County Schools

Richard P. Fuller, former Treasurer of the Toledo City Schools

William Guy, Treasurer, Columbus City Schools

John Hall, Ohio Education Association

John Hauck, Executive Director of the Buckeye Association of School Administrators

Ray Hopper, Superintendent of Montgomery County Schools

Robert Kosydar, Esq., partner, Jones, Day, Reavis & Pogue

David Martin, Executive Director of the Ohio School Boards Association

Charles Mauger, Deputy Auditor of State

Carroll L. McCammon, Deputy Inspector, Auditor of State's office

John Parsons, Executive Director, Office of Management Assistance, Ohio Department of Education

William Phillis, Assistant Superintendent of Public Instruction of Ohio

Warren Russell, Policy Assistant, Ohio Department of Education

Dean Simeral, Vice President-Public Affairs, Ohio Farm Bureau Federation, Inc.

Paul Spayde, former Assistant Superintendent for Public Instruction, former Legislative Affairs Director for the Ohio School Boards Association

Gerald Steck, Treasurer, Kettering City Schools

Paul Taylor, former Legislative Affairs Director of the Buckeye Association of School Administrators

Richard Whistler, Superintendent of Northmont City Schools, Englewood, Ohio

We are also grateful for comments from:

Robert Barrow, Columbus City Schools

Jack Brown, Ohio Association of School Business Employees

Charles Calhoun, Ohio Public Expenditure Council

Rollin Furnas, Dayton City Schools

Michael Hoffmann, the Cleveland Foundation

Lou Kitchen, Ohio Association of Public School Employees

Ron Marec, Ohio Federation of Teachers

David McClurkin, Cleveland City Schools

David Nissen, Toledo City Schools

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